

{As Prepared for Delivery}

**National Rural Electric Cooperative Association (NRECA)
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**Thomas C. Dorr
Agriculture Under Secretary for Rural Development
Remarks**

Thank you, and good morning. It is a pleasure to be here today with so many friends and colleagues -- and first and foremost, so many partners. It will be particularly nice when we have the opportunity to introduce you to Rural Development Utilities Service's new Administrator Jim Andrew, who is in the confirmation process.

Ours is a partnership that runs back to the beginning ... to the creation of the Rural Electrification Administration in 1935 ... to the very first rural electric coops and the invention of a whole new way to market electricity ... to the formation of NRECA in 1942 ... right down to today.

Earlier this year, Glenn English spoke at our 70th Anniversary celebration for USDA Rural Development's utility service. He

reminded us -- not that we had forgotten, mind you -- that ours has been perhaps the most productive public-private partnership in American history ...

... A partnership that fundamentally transformed our country ... that literally brought rural America into the 20th century.

The fact that most Americans today -- regardless of where they live -- can take for granted the ability to turn on the lights didn't happen by accident. WE did it -- and we did it together.

It took a lot of work. And as we are seeing right now in very dramatic fashion with Hurricanes Katrina and Rita, that work is never done.

You -- and your colleagues from around the country -- are in the field right now, putting things back to right after two devastating storms. On behalf of the President, Secretary Johanns and all of us at USDA Rural Development, I'd like to take a moment to acknowledge and thank you for that effort. This is truly what partnership is about.

It is a huge job. Katrina and Rita were very big storms. I've been on-site to survey the damage, as I know many of you have been. I've been to several of the Recovery Centers and several of our local offices to visit with the Rural Development staff who are also on the front lines of this effort. The scope of it is staggering. Truly unimaginable.

I'm an old Iowa farmer and a lifelong resident of tornado alley, but tornados -- bad as they are -- are at least relatively localized. The sheer scale of damage a hurricane can inflict has to be seen to be believed ...block after block reduced to matchsticks ... whole towns looking like an angry three year old has just settled accounts with his LEGOs.

But if the damage is immense, so is the scope of the response. Millions of Americans have contributed generously to the relief effort, which at the federal level alone is already the largest in American history.

And you all can be proud that electric cooperatives have been in the front rank. Crews from over 20 States have pitched in. They are doing the hard part out in the field, and it is truly a privilege for us at USDA to play some small role in supporting your efforts to get the lights back on.

We're active on other fronts as well.

Even prior to Katrina coming ashore, USDA had already pre-positioned food in warehouses in Louisiana and Texas. We are continuing to make emergency food supplies available as needed.

One of our sister agencies, the Forest Service, has deployed nearly 5,000 employees who are trained in rescue and response to large-scale incidents. Many more USDA people are serving in other capacities.

And at USDA Rural Development – just one mission area within USDA – we've arranged for 30,000 housing units for those displaced by the storm. As of yesterday, over 6,000 people have been housed in 2,100 units in 27 States, and those numbers continue to grow.

Our utilities programs are working with you, and many others, to bring electrical, sewer and water services back on line.

And since we provide rural telecommunications and broadband services ... affordable housing and community facilities ... rural hospitals, day care centers, emergency services, and business development lending ... we'll all still be on the ground doing the work of reconstruction long after the news media has moved on to the next big story.

This won't be over in a matter of weeks or months. I was in Florida a year ago representing Secretary Veneman after the triple hit in 2004 from Hurricanes Charley, Frances, and Jeanne. For awhile, as you recall, it seemed like that part of the coast had a bullseye painted on it.

I was back in Florida a few weeks ago at a check presentation in Arcadia for the DeSoto County Hospital, to help repair storm damage and, at the same time, finance some much-needed expansion and modernization.

And I know we will be back many times to Alabama, Mississippi, Louisiana, Florida, Texas, and every State responding to natural disasters because this is truly a job that never ends.

[PAUSE]

We are partners, and in many different ways. The emergency response to Katrina and Rita is just one example, albeit a big one.

But our partnership wasn't built around emergencies. It was built, starting in 1935, around the day-to-day provision of electric power to the people who call rural America home.

Today, 70 years later, we are still partners -- not only in providing power, but also in increasing economic opportunity and improving the quality of life in the communities we serve.

USDA Rural Development, in essence, is an investment bank for rural America. Currently we invest about \$12-14 billion a year in infrastructure, housing, community facilities, and business development. That's an increase of about 40% from the \$8-9 billion level of the late 1990's. Since 2001, it adds up to nearly \$60 billion invested and over 1 million jobs created in rural communities.

But the numbers don't tell the whole story. They tell us a little about where we've been and what we've done, but not where we're headed. And that's what is important today.

Every person in this room understands that we face sweeping changes -- in the economy, in our energy infrastructure, in how we work and where we live.

And I'm confident that everyone in this room understands that change is a double edged sword. It can work for us if we're prepared, or against us if we're not. So we'd better be prepared.

I had the opportunity to discuss this with Glenn [English] recently, and I know we see eye to eye about this.

Standing pat is not an option: not with the transformative impact of the internet, globalization, the green revolution, relentless competition in virtually every sector, and accelerating technological change.

Standing pat is not an option: not in a post Cold War world where the Berlin Wall is only a memory ... in which hundreds of millions of people have been liberated and are joining the world economy ... in which India and China are growing at 6-10% annually ... in which unquestioned American economic supremacy cannot be taken for granted.

Standing pat is not an option: not with the price of gasoline exceeding \$3 a gallon, natural gas prices soaring, and electricity usage projected to double in the next 25 years. The price of oil as recently as 1998 dipped to \$12.52 a barrel. Today, it's over \$60. The markets are telling us something.

And standing pat is certainly not an option in the electricity business -- not with today's price structure prompting massive investment in renewable and alternative sources of energy.

If rural America is going to thrive in the 21st century ... if small towns are to be viable choices for young families ... if agriculture is to remain an attractive option for the next generation ... or if instead follow so

many other industries abroad ... these changes need to be addressed.

We have much work to do. Unabashed options!

That said, change is not to be feared. For one thing, there is no point in fearing what we can't avoid. But in addition, change isn't new. We've mastered it before. We'll master it again.

I've spent most of my life on a farm. In a single lifetime, we've gone from plowing behind a mule to gene splicing.

When I was a kid, there were over 6 million farms in the United States. Today there are 2 ¼ million -- and about 250,000 of those produce the lion's share of our food and fiber.

When I was growing up, rural counties were dominated by farming, ranching, or forestry, and by small towns servicing those industries.

Today, 96% of the income in rural counties is from non-farm sources, and thousands of those little farm-service towns have been hollowed out.

That process, incidentally, has raised the stakes for you. When small towns shrivel up and rural businesses close, those are your customers disappearing. Your future depends on revitalizing rural economies and attracting new businesses and residents.

Very often, a rural electric coop plays an essential leadership role in making good things happen in the small towns you serve. And very often, it will be your members and staff who will need to step in as investors, owners, and managers to get it done. That's part of what we need to talk about today.

So we are in this together. Yes, we face challenges. There are always challenges. And there are always people who can't see past the challenges ... people who are defeated before they start.

But there are also exciting opportunities in rural America:

- **opportunities in alternative and renewable energy,**
- **opportunities in the decentralizing potential of broadband,**
- **opportunities to leverage the quality of life and traditional values of rural communities.**

And that's what I'd like to discuss today.

We can start with energy infrastructure because that's what you do, and nothing happens without it.

I mentioned a moment ago that electricity usage is projected to double in the next 25 years. It will be higher in some areas, lower in others, but that's an average, and it adds up to a real challenge for us.

Some forecasts predict as much as \$50 billion total spending in high voltage transmission alone will be needed to keep pace. Standard & Poor's expects G&T's to invest nearly \$20 billion in generation and transmission during the next decade.

And on top of that, we need to modernize and strengthen the total infrastructure – the grid for electric utilities, the refining capacity for oil, the production capacity for ethanol and other alternative sources.

We got an infrastructure wake up call with Katrina and Rita. We're not only dangerously dependent on imported oil, we're also a country that hasn't built a new refinery in a generation.

The result is that a single storm blowing through the Gulf – a recurring and predictable event – can cause an energy crisis by shutting down irreplaceable capacity. That's a signal of an energy infrastructure operating too close to the margin.

Something similar happened two years ago, when an incident at a single utility in northern Ohio led to rolling blackouts across the Northeast. 50 million Americans saw the lights go out and the computers go down.

That's another signal of an aging infrastructure operating too close to the margin ... and vulnerable to any unforeseen event.

And if you need a third example, just look to California a few years back ... a state that refused to build any new generating capacity during a decade of booming growth ... gambled that interstate wholesales

markets could keep them supplied ... and got burned when a drought and heat wave tipped an inherently unstable system over the edge.

Obviously, there is work to do. We know that. Five years ago, President Bush made a comprehensive energy package a centerpiece of his domestic agenda. People have been talking about that for 30 years. But President Bush stuck with it and got it done. And I want to thank Glenn English, his staff, all of you, and NRECA for your strong support for the Energy Bill.

But now we have to get it done. And as we have done for 70 years, we will be working with you to ensure that funding is available to meet the unique and important role that Rural Electric Coops play in the system.

But strengthening infrastructure is only part of the story. Yes, it's important. Yes, it's a priority. But our mission is broader. And so is yours.

If I may borrow a phrase from the old Merrill Lynch advertising campaign, there are many reasons to be bullish on rural America. I'd like to address two in particular: broadband and renewable energy.

First broadband. It's become a cliché to say that broadband is a transformative technology. Like most clichés, it's true. But what is especially important about broadband from a rural perspective is it's inherently decentralizing potential -- and therefore the way it leverages the natural assets of rural communities.

The fact is, the internet and the data processing capabilities associated with it are producing the most radical decentralization of information in human history. We are still in the very early stages of a profound transition. Organizational structure and social architecture change much more slowly than technology. But change they will.

In an increasingly knowledge based economy, the internet lets work move to people, not the other way around. Anyone with a modem and a good idea can compete globally. Complex information in large organizations can be shared easily; you don't need everyone in the same

building so they can talk. Manufacturing processes and distribution networks can be decentralized.

And as a result, to an unprecedented degree, people are going to have choices about where to live and how to work.

For rural areas -- with dramatically lower housing costs, a clean environment, no congestion, lower crime, better schools, a higher quality of life -- that is an enormous competitive advantage.

Yes, it will take time for organizational structures to adapt. At the Department of Agriculture in downtown Washington, D.C., for example, we have employees in carpools leaving Winchester, Virginia and Martinsburg, West Virginia at 4:30 in the morning.

Meanwhile, we have just scratched the surface on alternative work arrangements. In 20 years, I think we'll be a very different kind of organization – and as a large governmental organization, we will probably be a trailing indicator, not a leading one. In a couple of decades, the spatial organization of this country will be very different.

Just last year, for example, we funded a business incubator in Muskogee, Oklahoma. Dominos Pizza is a lead tenant. Any time you order a Dominos Pizza in the continental U.S., your order is processed through Muskogee, even if the pizzeria you were calling is two blocks down the street. That's what the future is going to look like.

The question for everyone in this room is how you, as community leaders in rural communities, can encourage these new ventures ...

... One call center in Muskogee, one ethanol plant in Minnesota, one distribution hub in Georgia, one processing plant in Illinois at a time.

A second great engine of growth in rural America is energy. I've already touched on your end of the business, conventional power generation and transmission. Without question, that will remain the baseline for the foreseeable future.

But as Bob Dylan once put it, "the times they are a-changing."

Alternative and renewable energy has been a gleam in the eye since the first oil embargo in 1973. The barrier has always been price. \$60 a barrel oil revises a lot of profitability equations.

The resource base is shifting. \$12 a barrel oil isn't coming back. I'd like to be wrong about that, but I don't think I am. That's why the Energy Bill placed such emphasis on conservation, renewables, and alternative energy. I expect the next Farm Bill, like the last one, will echo those priorities. And this has implications for all of us.

For rural America, renewable energy presents one opportunity after another. Ethanol and biodiesel are taking off already. The 7.5 billion gallon Renewable Fuels Standard in the energy bill will keep that growth on track. So will \$3 a gallon gasoline.

That has almost unlimited potential for rural economies throughout the grain belt -- higher commodity prices, a decentralized production network based on local sourcing, more good jobs in small towns, new customers for you.

And I might add in passing, ethanol has the extra benefit of not competing with you. On the contrary, all those ethanol plants are a new customer base.

To the extent that you are involved in community planning and economic development, this is something you can enthusiastically support. Call us up. We'll talk to you about financing.

Beyond ethanol, renewables span the spectrum. They include biomass: direct combustion, anaerobic digesters, and landfill gas recovery.

Geothermal and hydrogen projects are in the mix. We're financing some right now through our Section 9006 Renewable Energy program.

Wind power is coming into its own, even generating significant utility interest in several parts of the country.

And even solar power -- still the most expensive of the commonly recognized alternatives -- is becoming more common for remote applications.

Bottom line, with \$60 a barrel oil, we have a renewable energy gold rush on our hands. Are there issues to be addressed? Certainly. Cost is one. In addition, distributed generation raises some prickly questions about independent producers selling back to the grid ... and I know that may be a particular concern to some of you.

But in the end, those are problems we will work through together as we develop the protocols for managing a more diverse and decentralized energy system in the years ahead.

And we hope that you will be involved, not simply as conventional power generators and distributors, but in renewable energy as well ... and as investors in the myriad of new business opportunities emerging in rural communities all across this country.

Again, the change is coming. Our job is to be ready. And we will be ready, because our partnership is strong. We have met many challenges over the last 70 years. We will meet and overcome many more.

We will work with you to ensure that financing is adequate and available for conventional generation and transmission.

We will work with you to explore new opportunities in renewables and new technologies like broadband over power lines.

We will work with you to resolve the issues that arise from distributed generation and small, independent generators reselling back to the grid.

And we will work with you to encourage economic development in rural communities across America ... to encourage entrepreneurs ... to take advantage of the many opportunities that exist today.

President Bush is committed to a dynamic, entrepreneurial, ownership society. Our responsibility is to ensure that the 60 million people who make rural America their home share fully in this bright future.

As we have done for 70 years, we will meet the challenge, and we will meet it together. Thank you.

